

EXHIBIT L



A16z MakerDAO Tokenomics Proposal Three: Increasing Financial Resiliency and Fostering Growth

Governance Proposal Ideas longform tokenomics a16z-tokenomics-series



Porter_Smith

1 Mar 22

Increasing Financial Resiliency and Fostering Growth within MakerDAO

Proposal Three: Increasing the System Surplus Buffer, to begin aligning it to calculated, vault-specific, expected losses related to credit and liquidation risk, as the primary insurance pool for MakerDAO.

Dictating the size of the Surplus Buffer is fundamentally a capital allocation question. How much money should MakerDAO keep as a buffer to protect against "known unknowns;" how much can be put to work by compensating contributors for operational and strategic initiatives; how much should be distributed to token holders, and if any, through what distribution channels?

@krzkaczor elegantly outlined why MakerDAO should focus on aggressive growth with retained earnings: capital is hard to come by and should be used most efficiently to achieve more long-term earnings. Given the start-up nature of MakerDAO and its incredible potential, capital could be reinvested in ways to improve Maker's profitability and sustainability as it grows.

To this end, MakerDAO could keep the Surplus Buffer at \$250M while the community decides on those capital allocation routes and finalizes metrics that determine its size. The Surplus Buffer could be determined based on conservative estimates of potential shortfalls and other sources of capital outflows, perhaps using a formula that involves total capital at risk plus core operational costs and potential tax exposure (as suggested by @Aes), instead of arbitrary amounts.

Last, MakerDAO could establish a set of community principles governing retained earnings. How could they be spent to maximize growth? How can they incentivize MKR holders to provide valuable services to the protocol? Could Core Unit budgets be programmatically proportioned against these earnings?

The System Surplus Buffer is currently acting as a general catch-call for funds. It could be targeted for more specific uses (i.e. as an insurance pool), with other capital pools dedicated to other use cases for transparency and auditability.

As a final note, the thoughtful recent proposal by @hexonaut, @nadia, and @krzkaczor to better capitalize MakerDAO for growth purposes could be incorporated as part of a new overall strategy for the System Surplus Buffer, combining different approaches suggested by community members.

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 Porter_Smith: ⌵ ⬆

Could Core Unit budgets be programmatically proportioned against these earnings?

Really liking this financial resilient proposal. With regards to CU budgeting, I think currently for decentralized organizations it will be difficult to have proportioned budgets against earnings, as fixed and variable costs/expenditures can easily shift from Core Unit, to Core Unit. The first hurdle that DAOs are encountering is the challenge to design a DAO enterprise budget, plus a cash flow budget. The first necessitates the analysis of both the variable & fixed cost—and we all know, DeFi market conditions can shift suddenly. The latter will be dependent of the protocols performance. But having a Surplus Budget threshold approved by the community with a proposed annual DAO enterprise budget can help with the guessing game of budgeting. And if the community stands behind that threshold, we'll hopefully witness Core Units perform beyond their expectations.

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 LongForWisdom Governance (GovAlpha) Core Unit Team Mar 23

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 Porter_Smith 🔗  EIProgreso Mar 24

Great point [@EIProgreso](#). Maybe this could be used as just a rough starting point for budgeting to give Core Units some predictability within set limits. Aligning budgets (in some manner, however wide the latitude given by the community) against earnings could be helpful for long-term planning.

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 Eumenes Regular Mar 25

I like this approach - protect Maker against known unknowns and also perhaps unknown unknowns.

I also hope Maker can get some good analysis on the risk in its balance sheet liabilities so it can start a serious discussion about how to properly size its capital surplus. Given the relative newness of DAI and Canonical DAI, it will likely be more guesstimation than estimation, at least initially

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